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C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000030

SIPDIS

E.O. 12958: DECL: 01/07/2014
TAGS: EPET EINV PGOV ENRG NI
SUBJECT: NIGERIA'S LINGERING FUEL SCARCITY

REF: A. 2003 ABUJA 1700

¶B. 2003 LAGOS 2078
¶C. 2003 LAGOS 2422
¶D. 2003 LAGOS 2574
¶E. 2003 LAGOS 499

Classified By: JOSEPH GREGOIRE FOR REASONS 1.5 (B) AND (D)

¶1. (C) SUMMARY: Nigeria continues to face periodic fuel shortages as the GON, fuel marketers and the public adjust to a quasi-deregulated environment. Inadequate port facilities in Lagos create bottlenecks for delivery of imported fuel, and changing government policies create business uncertainty for sellers of fuel. Short- and long-term relief may come as private marketers look to other Nigerian ports to ease shipping congestion and negotiate with the NNPC to assume management of key offloading facilities. END SUMMARY.

¶2. (SBU) During the 2003 holiday season, Nigerian motorists again found themselves waiting in lines for gasoline and paying more for public transport as fuel stations ran short of supply. Ongoing supply chain problems continue to plague the country's fuel markets, as do the GON's re-regulation policies for the downstream petroleum sector. An executive with a major fuel retailer in Nigeria told Econoff that since deregulation took effect October 1 (ref A), Nigeria's domestic and imported fuel supply has been meeting only about 55 percent of market demand, so retailers routinely close their stations on an ad-hoc basis. An air freight company executive also reported that shortages of jet fuel at the Lagos international airport has forced airlines to adjust routes and fueling patterns.

SHIP TO SHORE: BOTTLENECKS AT THE LAGOS PORT

¶3. (C) In conversations with Econoff, Jules Harvey, Texaco International's Vice President for West Africa, listed port congestion as a major contributor to Nigeria's ongoing fuel crunch. Because Nigeria's refineries remain largely offline, most fuel sold in the country is imported. After retail price caps were eliminated in October, private marketers entered the import business cautiously. Harvey told Econoff that the six major private fuel marketers in Nigeria formed a purchasing committee to which each company submits bids indicating how much fuel it is willing to bring to Nigeria during a given time frame and at what cost. Winning bidders then purchase fuel on international markets and arrange for its delivery to Lagos ia tanker ships. Upon arrival, cargoes are divided among the companies roughly according to existing marketshare, the original purchaser being reimbursed at the time of delivery by each recipient company for its share of the cargo.

¶4. (SBU) Problems arise as soon as fuel tankers arrive in the waters off the coast of Nigeria. The water level at the berthing docks for the main fuel jetty at the Apapa port in Lagos is too shallow to handle large tankers coming from overseas (35,000 tons plus). Consequently, fuel cargoes must be transferred to smaller vessels (15,000 tons) at sea before being brought into port.

¶5. (SBU) The main fuel offloading jetty at Apapa belongs to the Nigerian National Petroleum Corporation (NNPC). Once cleared by Customs and port managers, fuel ships berth at the jetty, and cargo is pumped through a manifold that sends fuel either to NNPC's storage tanks or to those belonging to one of the private marketers. (Besides the six major "private marketers," Nigeria licenses over 1,000 "independent marketers" (ref B). The independent marketers may own as few as one gas station, and generally purchase fuel from NNPC.) Delays occur because the jetty has insufficient capacity to handle the number of ships needed to relay fuel cargoes. Moreover, according to one fuel importer, regardless of when a private marketer's ship is cleared for offloading, NNPC vessels always take precedence at the jetty, forcing the marketers' ships to wait. These delays in offloading result in significant demurrage fees for the marketers that drive up their business costs. A backup of fuel deliveries is evident simply by scanning the horizon south of Lagos where ships wait to be offloaded or to bring fuel to port. On a boat tour December 26, Econoff counted some 55 tanker ships

anchored off the coast near the entrance to Lagos' harbor channel. Most were small vessels registered in Lagos, but large tankers were also anchored at sea, including some transferring fuel to smaller ships.

COMPANIES AND THE CBN ENTER UNCHARTED WATERS

¶6. (C) Texaco's Harvey noted another element to the fuel supply challenge in Nigeria: designated importers sometimes fail to deliver their scheduled fuel cargoes. He noted that some of the companies' managers grew accustomed to the old system whereby NNPC imported fuel, sold it to the marketers at a fixed rate, and mandated a retail price cap which effectively became the universal sales price. For these managers, this early phase of deregulation is a new business model with which they are neither familiar nor comfortable. On several instances since October, companies chosen by the private marketers' ad-hoc import committee to purchase cargoes of fuel failed to deliver product on time (or at all), causing a supply problem for all of the private marketers. Harvey attributed such delivery failures to a combination of the inexperience and poor business decisions.

¶7. (C) Marketers sometimes also have difficulty obtaining dollars from the Central Bank of Nigeria's (CBN) Dutch Auction System (DAS) to purchase fuel abroad (ref C). Under the current arrangement, the company purchasing fuel on the international market pays for that cargo in dollars, and the other marketers pay the purchaser for their respective share of the cargo in naira at the time of delivery. Harvey told Econoff that at a stakeholders' meeting on January 5, President Obasanjo promised marketers that the CBN would make $200 million per month available to the industry for fuel stocks.

POSSIBLE SHORT-TERM FIX: PORT HARCOURT

¶8. (C) Texaco's Harvey told Econoff that marketers are analyzing import options to ease the strain on the fuel jetty in Lagos, including delivering fuel to Port Harcourt in the far south of Nigeria and to Calabar in the southeast near the Cameroon border. Such a move could help the companies move fuel more easily throughout Nigeria's southern, south-central, and eastern regions where supplies often run dry and black-market prices were reported to have been as high as 200 naira per liter in recent weeks. (Since deregulation, the going rate for gasoline in Lagos has been between 39 and 42 naira per liter, but the Department of Petroleum Resources (DPR) recently told marketers not to charge above 41 naira per liter in Lagos, and between 42 and 48 naira per liter elsewhere (ref D).)

THE POTENTIAL OF ATLAS COVE

¶9. (SBU) The Atlas Cove fuel jetty, now being completely rebuilt, may help alleviate port congestion for fuel shipments when it returns to operation. Atlas Cove lies near the entrance to Lagos' harbor channel, and is deep enough to handle large tankers. That would allow for faster, more efficient, and less expensive offloading of fuel. Viewing it from a boat in the channel, the new jetty nearing completion does appear large and modern. However, the Atlas Cove jetty is connected to NNPC storage tanks only, so under current arrangements, private marketers would not use Atlas Cove for their imports.

MANAGEMENT OF THE JETTIES

¶10. (C) Texaco's Harvey told Econoff that the marketers are negotiating with the NNPC to turn over management of both the main jetty at Apapa and the new jetty at Atlas Cove to private industry. Harvey said his company is interested in forming a consortium to operate the jetty, but other proposals include hiring an international port management company, or offering a management contract to one of the marketers. Marketers believe that many of the actual delivery delays could be eliminated with proper (private) management of jetty operations. Harvey said President Obasanjo is pressing NNPC Group Managing Director Funso Kupolokun to turn over management of the Apapa jetty to the industry, but Harvey believes that the NNPC will not turn over Atlas Cove anytime soon. Harvey said that if NNPC someday agrees to turn over management of Atlas Cove, the marketers will build an underwater pipeline network to move fuel directly from the jetty to the companies' storage tanks, which lie near each other about four miles from Atlas Cove.

OPPORTUNISM KNOCKS

¶11. (SBU) The Nigerian press and government regulators also point to greed as a cause of recent fuel queues. In mid-December, President Obasanjo announced that as of January 1, 2004, a fuel tax of one and one-half naira per liter would be imposed nationwide in an effort to raise revenue for road repair and maintenance. Observers allege that after the President's tax announcement, some retailers began hoarding their fuel supplies in hopes that after the first of the year they could charge consumers the amount of the tax but under-report their sales to the government and pocket the difference. That may not be a universal or even common practice, but motorists reacted to Obasajo's announcement by trying to fill their tanks before the end of the year, causing a run on already tight fuel supplies. The usual exodus of Nigerians from urban centers to villages for the holidays also contributed to a spike in demand, and subsequent gas station queues. Since January 1, occasional fuel queues may be found at retail gas stations, but the situation is not out of the ordinary, at least when compared to conditions seen throughout 2003 when supply problems again became
noticeable (ref E).

SAME OLD SAME OLD?

¶1. C) Fue maketers may have also reduced fuel imports in Decmber after the Department of Petroleum Resources (PR) reinstated a price-cap. Higher than expecte crude prices and a decline in the value of the aira made the DPR price caps particularly unwelcoe to the arkeers astheir narrow profit margin degraded further. Moreover, a flurry of other poposals covering matters such as how prices must b posted at stations to how sales will be monitored and taxed have been bandied about publicly by government officials, legislators, unions and other activists at both the federal and state levels, gave retailers an increasing feeling of business uncertainty going into the new year. Nonetheless, Jules Harvey of Texaco told Econoff on January 6 that his company has increased its retail gasoline price to 42.5 naira per liter in Lagos to absorb the new fuel tax, and that this move, so far allowed by DPR, provides Texaco a sufficient margin to continue importing fuel in the near-term. But Harvey noted that the new year was rung-in under the same dark clouds of poor government planning and coordination, poor transportation infrastructure, and union strike threats seen throughout 2003. He said President Obasanjo is trying hard to keep deregulation and reform of the petroleum sector on track, but he is "quite lonely at the top."
HINSON-JONES